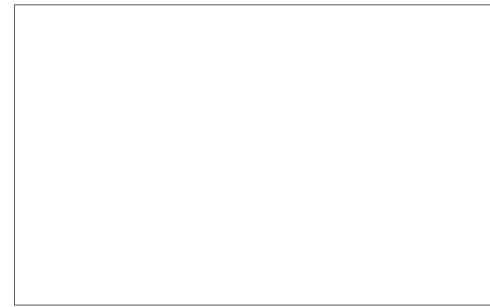


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Director of
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Intelligence

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NICARAGUA: Increasing Ties to Arab Radicals

The recent unsuccessful Libyan attempt to fly arms to Nicaragua underscores the Sandinista regime's expanding ties to radical Arab states in the Middle East. []

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Libyan leader Qadhafi reaffirmed his support for the Nicaraguan revolution in a communique on the attempted arms delivery. Last year Libya supplied propeller-driven counterinsurgency aircraft and helicopters, as well as mechanics and pilots to train the Nicaraguans. Tripoli also has provided a \$100 million loan to the Sandinistas. []

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Nicaragua is the only Latin American state to accredit an ambassador from the PLO. This month Nicaragua was host to one of a series of regional meetings called by the UN on the question of Palestine. Sandinista leaders successfully promoted a resolution supporting the PLO, asserting that both the Palestinians and the Nicaraguans were victims of "imperialism." []

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South Yemen's Defense Minister visited Nicaragua last month, following a trip to Aden by the Nicaraguan Foreign Minister. A Sandinista military mission traveled to Syria this year. Nicaragua has been interested in expanding trade with Iran []

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Comment: The Sandinistas probably hope to obtain additional political, economic, and military support from the radical Arab states in exchange for continuing their propaganda attacks against Israel and the US. Managua and the Arab radicals also can find common cause in objecting to Israeli arms sales to Central American nations. []

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WEST GERMANY-LIBYA: Arrests Strain Relations

A visit to Libya by a senior West German Foreign Ministry official has failed to ease growing tensions between the two countries. [redacted]

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Libya recently arrested eight West German employees of private engineering firms on charges of spying. Two Libyans, meanwhile, are on trial in West Germany for torturing dissident Libyan exiles at the residence of the Libyan Ambassador in Bonn. A Libyan convicted of killing an anti-Qadhafi dissident in Bonn in 1980 remains in a West German prison. [redacted]

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Foreign Office State Secretary Moellemann has visited Libya in an attempt to resolve these issues. He and Libyan leader Qadhafi's deputy reportedly could agree only on a "general framework" for discussions. [redacted]

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Comment: Both sides probably would like to see these issues put to rest as quickly as possible to ensure the continuation of their economic relations. Libya is West Germany's second-largest source of oil, and West German exports to Libya last year totaled more than \$1.1 billion. In addition, some 3,000 West Germans are working in Libya. [redacted]

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Tensions are likely to persist, however. The arrests of the West Germans apparently are related to the trial of the Libyans, which will continue for another two to three weeks. [redacted]

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The West German courts normally reject any suggestions from the Foreign Ministry for compromise. At best, the Libyans will be expelled after being acquitted or convicted, and the West Germans released in return. [redacted]

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Further incidents are possible. Bonn is unlikely to break its economic ties to Tripoli, and Qadhafi probably will continue to encourage operations against Libyan exiles in West Germany. [redacted]

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ITALY: Prospects for Early Election

Prime Minister Fanfani is to resign next week following the withdrawal of Socialist support for his government yesterday, and an election is likely to be scheduled, possibly for late June. []

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Most political leaders now expect an early national election. President Pertini—who twice blocked an early election last year—has been silent this time, and the press is speculating that he believes an election can no longer be avoided. []

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Comment: Socialist leader Craxi has the most to lose or gain in a new election. If the Socialists can improve on their 9.8-percent performance in the last national election, Craxi may finally be able to exploit the Socialists' key position in the coalition to secure control of the government. If the Socialists do poorly, Craxi's future and that of his party will be in jeopardy. []

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Economic policy issues, rather than INF and other foreign policy questions, are likely to dominate the campaign. The contest may be bitter. If resulting animosities block the formation of a new center-left government based on the current governing coalition, politicians may consider alternatives involving Communist support. []

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PANAMA: Constitutional Referendum

A popular referendum tomorrow probably will approve sweeping changes in the constitution and set the stage for presidential and legislative elections next year. []

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The changes would establish a National Assembly elected by popular vote to replace the existing legislature, which consists primarily of appointed representatives. The new constitution would also provide for direct presidential elections and would no longer sanction National Guard intervention in government affairs. []

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President de la Espriella reportedly believes that approval of the revisions will reduce interference in the government by National Guard Commander Paredes. De la Espriella claims that the Guard's General Staff wants Paredes to step down following the referendum but is offering its support for Paredes to run for president. Nevertheless, the Guard hierarchy is willing to allow Paredes to remain as commander until October. []

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Comment: The new constitution would eliminate a number of political inequities, particularly in the legislature, which is now dominated by the ruling party. The political opposition is unlikely, however, to obtain immediately any significant gains from the changes. De la Espriella probably will not improve his position against Paredes and the Guard because many of the constitutional changes would not take effect until after the election in 1984. []

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PORTUGAL: Parliamentary Election

The Socialist Party appears the likely winner in the parliamentary election on Monday. []

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The campaign has been marked by familiar rhetoric and an emphasis on personalities. Socialist leader Soares has come closer than his competitors to dealing with the issues in a straightforward manner, but even his proposals have been vague. []

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Comment: Despite the dull campaign, there probably will be a large turnout of voters. A heavy vote would work to the advantage of all parties except the Communists. []

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The Socialists almost certainly will win a plurality of seats in the Assembly. A new government is unlikely to be installed, however, before June. The Social Democratic Party, the Socialists' first choice as a coalition partner, probably would not join a coalition unless it won at least 25 percent of the vote. []

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If necessary, the Socialists would form a minority government. In that event, they would try to secure agreement on a "social pact" among the other parties, the business community, and the labor federations to reduce pressure on the government as it grapples with the economy. []

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Labor stability would be crucial to the success of any such program. Nevertheless, the Communist Party and the Communist-dominated confederation that represents the majority of unionized workers would be unlikely to cooperate with the new government except on their terms. []

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Soares, as prime minister, probably would spend much of his time on foreign affairs—his main interest. He would be likely to round out his cabinet with a strong contingent of technocrats and managers who would focus on economic and social problems. []

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THAILAND: Efforts To Form Coalition

Parliament will convene on Monday as party leaders begin bargaining on the selection of a prime minister and the formation of a new coalition in which the elected legislature is to have more power than the appointed, military-backed Senate. [REDACTED]

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The final results of the election last week give the three largest civilian political parties—which form the current coalition government under Prime Minister Prem—68 percent of the seats. The military-backed parties did poorly. The two leading parties are vying for dominance, however, and the second-place party is trying to ally itself with some of the military-backed parties. [REDACTED]

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Commander in Chief Athit wants the new coalition to include parties sympathetic to Army interests. [REDACTED]

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The Senate no longer can vote on legislation or no-confidence motions, but it retains its voting rights on constitutional matters. The US Embassy reports that Athit exercised considerable influence over Prem's recent appointment of 109 new Senators. [REDACTED]

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Comment: Deliberations on the new coalition could become acrimonious if the military concludes that civilian political leaders are successfully cooperating to prevent it from regaining its traditional dominance of power. Civilian politicians, however, have indicated some willingness to compromise with the Army by accepting Prem, who is favored by the military. [REDACTED]

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USSR-CHINA-VIETNAM: Comment on Border Fighting

Soviet media are reporting without comment accounts from both Hanoi and Beijing of the border fighting that began last week. Moscow is providing the Vietnamese versions, however, in greater detail. In contrast, Chinese media are continuing their criticism of the USSR as the "backstage boss" of Vietnam. [REDACTED]

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Comment: The USSR does not want to damage prospects for improving relations with China by taking a strong stand against Beijing, as it did during the Vietnamese border conflict in 1979. At the same time, the Soviets are unwilling to abandon their most important ally in Southeast Asia. The longer the Sino-Vietnamese fighting continues, the more difficult it will be for the USSR to take an evenhanded approach. China also presumably wants to limit the effect of the fighting on its relations with the USSR, but Vietnamese activities on the Thai-Kampuchean border and a desire to hold down military costs probably are Beijing's main considerations. [REDACTED]

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CENTRAL AMERICA: Inconclusive Peace Efforts

The discussions in Panama involving the five Central American nations and the Contadora Foreign Ministers—representing Colombia, Panama, Venezuela, and Mexico—have adjourned without agreement on a negotiating formula. Initial US Embassy reports indicate that Nicaragua refused to participate in multilateral meetings with its neighbors, enabling the remaining four to push as a bloc for regional talks. A press communique says the Contadora Foreign Ministers will reconvene next month in Panama. It also notes they have identified nine issues for additional regional or bilateral discussion. []

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Comment: Nicaragua's isolation on multilateral talks has helped the other Central Americans to reestablish unity while placing Mexico, the Sandinistas' main supporter in the Contadora group, in an awkward position. The other Central Americans probably would attend another regional meeting because the issues specified in the communique appear largely aimed at the Sandinistas. The issues include the weapons buildup, arms trafficking, and the presence of foreign military advisers. To undermine the regional approach, Nicaragua may now seek to press its case for bilateral meetings at the UN. []

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JAPAN: Local Elections

Voters will select mayors and representatives for local assemblies tomorrow in the second electoral test this month for the ruling Liberal Democratic Party. Although the media highlighted the defeat of Liberal Democrats in two earlier local elections, most party leaders were pleased with the overall results. The media continue to play up national issues, including recent charges by a KGB defector of Soviet agents in the government, but most observers believe that the elections will be decided on local issues. The Liberal Democrats' local organizations are strong, and the opposition has fielded an unusually weak slate of candidates. []

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Comment: Most polls show that the Liberal Democrats will do well. If they do, it will add to the pressure on Prime Minister Nakasone to dissolve the Diet and hold early elections this summer for both the upper and lower houses. []

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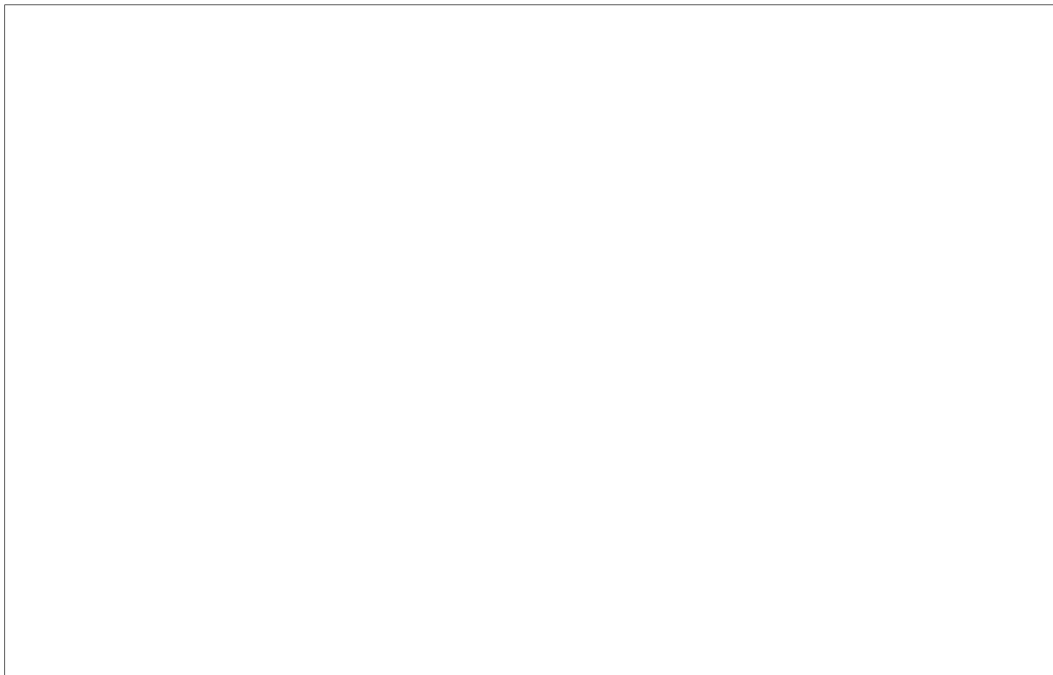
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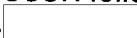
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AUSTRALIA-USSR: Impact of Espionage Incident

The Australian Government has postponed cabinet discussions on relaxing sanctions against the USSR following the expulsion of a KGB officer posing as a diplomat. 

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Comment: Despite the expulsion, Canberra is taking a pragmatic approach to its relations with Moscow. The government believes that sanctions imposed in 1979 after the invasion of Afghanistan no longer serve any purpose. Australia is committed to expanding trade with the Soviets. It currently is seeking a long-term wheat agreement with the USSR, and the lifting of sanctions is unlikely to be delayed for long.

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AUSTRIA: Election Outlook

Chancellor Kreisky's Socialist Party is gaining in the polls, but the most recent surveys still indicate that his party will fall short of a parliamentary majority in the election tomorrow. The US Embassy notes, however, that many of the undecided voters are now lining up behind the Socialists. One environmentalist party—the United Greens—reportedly has a good chance of entering the parliament, but it is plagued by internal squabbling.

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Comment: The state of the economy has been a key campaign issue, but the health of the popular 72-year-old Chancellor almost certainly has been equally important. Kreisky's performance last week in a television debate may have reassured voters that he can handle another four-year term. If the Socialists fall short of the required 92 seats, however, the need to form a coalition could prompt Kreisky to follow through on his standing threat to retire.

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SOUTH KOREA: Student Demonstrations

Students at several universities staged demonstrations this week on the anniversary of the student revolution of 19 April 1960. They were protesting the government's academic policies and the lack of political freedom. The demonstrations have involved up to 1,000 students, and riot police used tear gas in at least two incidents.

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Comment: President Chun's recent reform gestures have put his opponents off balance and have reduced public sympathy for their demands. Nevertheless, the demonstrations are larger and more numerous than those last year and underscore the continuing mistrust of Chun's promises of political liberalization. The government's close surveillance of campus political activities and tough treatment of protest organizers probably will keep future demonstrations at manageable levels.

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